BC Pacific Capital Corporation

2002 Annual Report

CONTENTS

B.C. PACIFIC CAPITAL CORPORATION is a British Columbia based financial and investment corporation providing management services to corporations encountering financial difficulties, requiring merger and acquisition advice or operational evaluation. B.C. Pacific also uses its own capital to invest in undervalued companies, primarily in the natural resource, real estate and financial service areas where management initiatives can enhance longer term prospects.

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders of B.C. Pacific Capital Corporation will be held at Suite 1500, The Grosvenor Building, 1040 West Georgia Street, Vancouver, B.C. on June 24, 2003 at 11:00 a.m.

Message to Shareholders

Financial Results

B.C. Pacific recorded a loss for the year of $13.4 million, compared to earnings of $10.1 million in the prior year. After providing for dividends on the Corporation's Preferred shares, earnings (loss) per Class A Subordinated Voting Share and Class B Common Share was ($1.16) in 2002 compared with $0.08 in 2001. Excluding the loss from our equity accounted investment in Northgate of $8.3 million, the loss before Preferred Share dividends was $5.1 million for 2002 compared with earnings of $10.1 million in the prior year.

There are primarily three reasons for the significant reduction in revenues and earnings for the year. Firstly, several higher yielding merchant banking loans were repaid at the end of 2001 and funds were not reinvested as B.C. Pacific adopted a cautious approach to new opportunities. Secondly, B.C. Pacific deployed capital from its dividend and interest bearing marketable securities to fund our $98.7 million common share investment in Northgate. While our ownership position increased to 43.2%, it continues to be accounted for using the equity method and our share of Northgate's loss for the year was $8.3 million. Thirdly, expenses increased as a result of additional interest expense associated with increased borrowing to fund a portion of our Northgate investment, increased legal and consulting fees and a one-time sales tax payment relating to previous years' real estate sales.

While we are disappointed with our financial results for the year, we continue to be pleased with the progress that is being made with Northgate Exploration Limited which is now the Corporation's most significant investment.

Corporate Investments

During the year, B.C. Pacific increased its investment in Northgate Exploration Limited from 28% to 43.2% by participating in the recapitalization of Northgate through the purchase of $8.7 common shares and $90 million Class A and Class B convertible preferred shares. The preferred shares were exchanged for common shares during the year. Also, the $7 million deposit held in trust at December 31, 2001 was converted into common shares in 2002. Northgate is a gold and copper mining company focused on operations and opportunities in North and South America. Its principal assets are the Kemess South Mine in North Central British Columbia which produces 290,000 ounces of gold and 75 million lbs. of copper per year and the adjacent Kemess North Project which is currently the subject of a feasibility study.

Northgate achieved a number of aggressive objectives that continued to enhance the underlying value of its assets in 2002. At the Kemess South Mine, significant improvements were made in all areas of the operation. On the mining side, productivity was enhanced by increasing excavation and haulage capacity and mill availability improved from 83% in 2001 to almost 91% during the last six months of 2002. This substantial increase in throughput resulted in record gold production for the year of 282,000 ounces at an average cash cost of US$204/ounce including by-product revenue from the production of 73,000,000 lbs. of copper.

The 2002 exploration program in the East and Central Cirque areas of Kemess North determined the ultimate extent of the high grade porphyry dome structure that was discovered in 2001 and confirmed the continuity of the mineralization of the deposit. The total resource at Kemess North now contains 6.6 million ounces of gold and 2.4 billion lbs. of copper. The strong operating performance of the Kemess South Mine combined with the development potential of the Kemess North Project set the stage for a successful Canadian Cdn$125 million equity issue in June 2002.

For 2002, Northgate reported a substantial improvement in its financial results, reporting cash flow from operations before changes in working capital of $21.7 million compared with $13.4 million reported in 2001. Before one-time charges, Northgate reported a loss of $4.1 million compared with a loss of $11 million in 2001.

For 2003, Northgate has set a number of objectives aimed at continuing to increase the fundamental value of the Company and returning Northgate to profitability.

Merchant Banking

At the end of 2001, several merchant banking loans were repaid and while B.C. Pacific reviewed a number of new opportunities in 2002, a cautious approach was taken due to the significant uncertainties and difficult economic conditions that prevailed in many business sectors in North America.

Investment Activities

B.C. Pacific invests in securities of a number of public and private corporations. Our objective is to earn an acceptable rate of return from dividends and capital appreciation without exposure to unreasonable risk. These investment activities are supported by ongoing research to determine the underlying values for each of the companies selected which comprise core investment positions.

B.C. Pacific's investment portfolio has been weighted towards natural resources, financial services and real estate investments. During the year, several small common share investment positions were acquired.

Outlook

With our strategic investment in Northgate and substantial liquidity to undertake new merchant banking opportunities, should they arise, we believe B.C. Pacific is well positioned to achieve profitable growth during the next several years.

On behalf of the Board of Directors.

Brian G. Kenning	Terry A. Lyons
Managing Partner and Chairman	Managing Partner and President

May 12th, 2003

Financial Analysis and Review

During the last five years, B.C. Pacific Capital Corporation ("B.C. Pacific") has been conducting merchant banking and investment activities, primarily in Western Canada with corporate and individual clients and affiliates. During 2002, B.C. Pacific made a substantial investment in Northgate Exploration Limited, increasing its ownership position to 43.2% and continued its merchant banking and investment activities, albeit, with considerable caution in light of the economic downturn that was experienced throughout North America for most of the year.

BALANCE SHEET ANALYSIS

In 2002, B.C. Pacific's total assets increased 13% to $187.4 million from $166.2 million in 2001, as outlined below.

$ Millions	**2002**	2001	% Change
Cash and financial assets	**88.1**	164.3	
Corporate and real estate investments	**99.3**	1.9	
Total Assets	**187.4**	166.2	12.7
Secured debt, advances and other payables	**124.8**	87.8	
Shareholders' equity	**62.6**	78.4	
Liabilities and Shareholders' Equity	**187.4**	166.2	12.7

Marketable Securities and Advances

B.C. Pacific's investment portfolio is comprised principally of securities issued by natural resources, financial services and real estate companies. Earnings in these investments are cyclical and tied to underlying commodity prices and interest rates. Accordingly, their share prices will experience price fluctuations.

During 2002, several common share investment positions were acquired, utilizing funds held on deposit. In addition, funds held on deposit were used to purchase B.C. Pacific's additional interest in Northgate Exploration, which is described in more detail in Corporate Investments below.

$ Millions	**2002**	2001
Deposits	–	56.8
Preferred Share Investments	**6.6**	6.3
Common Share Investments	**59.0**	50.4
	65.6	113.5

Corporate Investments

During 2000, B.C. Pacific acquired Westfield Minerals Ltd. which included a 28% interest in Northgate Exploration Limited. B.C. Pacific held its shares of Northgate as a corporate investment. At the end of 2000, Northgate reported a $30.5 million loss for the year, which, on an equity accounting basis, reduced the carrying value of B.C. Pacific's investment to a nominal amount. During 2001, B.C. Pacific acquired a further 2.0 million shares of Northgate for total consideration of $1.9 million. At 2001 year-end, the Company acquired 5.5 million Special Warrant units from Northgate Exploration for $7 million. As the funds were held in escrow subject to the fulfillment of certain release conditions, the funds were recorded as deposit held in trust at December 31, 2001.

During 2002, B.C. Pacific participated in the recapitalization of Northgate by purchasing $8.7 common shares and $90 million Class A and Class B Convertible Preferred Shares issued as part of the Refinancing Plan for Northgate. Prior to year-end, B.C. Pacific converted this holding of Convertible Preferred Shares into Common Shares of Northgate, bringing its ownership in the Company to 43.2%.

$ Millions	**2002**	2001
Northgate Exploration Limited	**99.3**	1.9

INCOME STATEMENT ANALYSIS

Revenues resulting from dividends, capital gains, interest income, participations and management fees decreased to $4.4 million in 2002, compared to $17.3 million in 2001. Interest income decreased to $0.7 million from $6.0 million the year before as a significant portion of higher yielding loans receivable were repaid at the end of 2001. In addition, participation fees and capital gains associated with the sale of securities were significantly lower in 2002 while dividend income declined slightly from $3.8 million in 2001 to $3.5 million.

The decrease in investment income resulted from redeploying capital from dividend and interest-bearing marketable securities and advances to fund our common share investment in Northgate, which is accounted for using the equity method. In addition, as a result of caution exercised in our merchant banking activities, advisory fee and interest income associated with those activities decreased.

B.C. Pacific's investment in Northgate contributed an equity accounted loss of $8.3 million in 2002 compared with nil in the prior year. Although Northgate benefited from improved operating results and higher gold prices, these results were impacted by one-time charges associated with closing out a significant portion of their gold hedge book pursuant to their successful equity financing in 2002.

Expenses

Interest expense increased from $5.0 million in 2001 to $5.9 million in 2002. While secured debt loan balances increased by $4 million, the Company borrowed $33.8 million to provide a portion of the cash required to fund its Northgate investment. Administrative expenses increased 14% during the year, primarily as a result of increased legal and consulting expenses. Tax expenses increased significantly as a result of a one-time payment of sales taxes that were due from prior years' real estate transactions.

Net Income

The Corporation reported a loss for the year of $13.4 million compared to earnings of $10.1 million in 2001. The Corporation has issued $74.5 million of Series 2 Participating Preferred Shares which, in addition to a cumulative dividend based on 75% of the Prime rate of interest, are entitled to participate with the Class A and Class B common shares in any common share dividend declared in any year after the Class A and Class B shares receive dividends equal to 4¢ per share. Any additional dividends if paid, in any year, will be paid on the Series 2 Participating Preferred Shares at a rate of 50 times the amount paid per Class A and Class B common share.

After dividends were paid on the Participating Preferred Shares, the loss reported per Class A Subordinate Voting Share and Class B Common Share was $1.16 compared to earnings of 8¢ in the prior year. In 2001, earnings per share were calculated on a fully diluted basis that reflected the participating feature of the preferred shares while the loss in 2002 was attributable only to the common shares outstanding. The participation feature on the preferred shares is only included in calculating earnings per share when the Corporation's reports income.

Liquidity and Capital Resources

Cash flow from operations before net change in non cash working capital was a negative $1.9 million, down from $13.7 million in 2001. At December 31, 2002, the Corporation had $88.1 million of shorter term assets available to repay demand indebtedness of $124.8 million. The Corporation's operating cash requirements are limited to the payment of interest on loans payable and dividends on the Corporation's preferred share capital. At December 31, 2002, the Corporation had a secured demand facility of $88.9 million outstanding and advances payable of $33.8 million. The Corporation's operating cash requirements can be met from dividends and interest earned on the Corporation's investments and the $75 million operating line of credit, which is also satisfactory to meet its investment requirements.

Operating Environment

B.C. Pacific's businesses face a number of risks and uncertainties, which arise from regulation, competition and economic trends and events beyond their control. In addition, there are a number of internal issues which will affect their future success. The principal risk factors are discussed below.

Competition

B.C. Pacific faces strong competition in virtually all its activities. Federal legislation over the last few years has endeavoured to further intensify competition in the financial services industry. Several new unregulated participants have emerged in selected market segments. Some of these are large corporations operating internationally while others are niche operations, meeting a particular market need and providing a measure of independence from the major bank-owned financial service providers.

Technology

Computer and communications technologies are subject to revolutionary change as are the applications and costs of these technologies. Such changes may alter the methods of conducting financial services businesses in the future in ways to be determined. B.C. Pacific's operations place a high priority on emerging technological advances in order to sustain their competitive positions in their markets.

Economic Environment

The strong global economic performance over the last several years has provided opportunities for growth in all business areas. The present economic outlook is less positive. However, B.C. Pacific believes that this environment will provide opportunities particularly in its financial advisory and merchant banking operations. With its present strong financial position, B.C. Pacific is well positioned to pursue and take advantage of new opportunities.

Currency and Interest Rate Risk

B.C. Pacific endeavours to maintain a matched book of currency sensitive assets and liabilities. Unmatched positions are carried for trading purposes from time to time within exposure limits determined by the Board of Directors. These exposures are not material in relation to B.C. Pacific's overall business operations.

The majority of B.C. Pacific's assets are short-term and carry floating interest rates or reprice within two years. In order to partially mitigate the resultant interest rate exposure, the Company has issued floating rate preferred shares. At December 31, 2002, the Company maintained a net floating rate asset position.

Credit Risk

A significant portion of the Company's assets involve an assessment of credit risk and B.C. Pacific has established policies and procedures in order to minimize this risk. B.C. Pacific believes that its exposure is further limited by the manner in which transactions are structured and in the selection of its clients. B.C. Pacific believes that it has established adequate provisions for loan losses based on current circumstances.

Business Environment and Outlook

B.C. Pacific enters 2003 with a strong asset base and significant liquidity which places the Company in a strong position to pursue new merchant banking initiatives with specific emphasis on responding to clients requirements' for short-term bridge acquisition financing and examining several private asset workout opportunities in the oil and gas and mining sectors. The Corporation will, as in past years, continue to take a cautious approach to new initiatives and selectively allocate its capital and concentrate on those areas where its management expertise can be best applied.

Management's Reponsibility for Financial Statements

The accompanying consolidated financial statements and other financial information have been prepared by the management of the Corporation who are responsible for the integrity and objectivity of the statements. To fulfil this responsibility, the corporation maintains appropriate systems of internal control to ensure that its costs, reporting practices and accounting and administrative procedures are of high quality, consistent with reasonable assurance that relevant and reliable financial information is produced. These statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on management's judgement. The financial information presented throughout this annual report is consistent with the information contained in the corporation's consolidated financial statements.

The consolidated financial statements have been further examined by the board of directors and by its audit committee which meets with the auditors and management on a regular basis to review the activities of each. The audit committee reports to the board of directors and is comprised of three directors who are not officers of the Company..

Brian G. Kenning
Director & Chairman

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of B.C. Pacific Capital Corporation as at December 31, 2002 and 2001 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia) we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

KPMG LLP
Chartered Accountants

Vancouver, Canada
April 25, 2003

Consolidated Balance Sheets

Years ended December 31 *(Expressed in thousands of dollars)*	**2002**	2001
Assets		
Cash and cash equivalents	**$ 7,427**	$ 25,141
Deposit held in trust (note 3)	**–**	7,000
Marketable securities and advances receivable	**65,630**	113,453
Loans receivable	**15,024**	18,710
Corporate investment (note 3)	**99,298**	1,901
	$ 187,379	$ 166,205
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	**$ 2,040**	$ 2,565
Advances payable (note 4)	**33,841**	–
Secured debt (note 5)	**88,889**	85,209
Shareholders' equity:		
Share capital (note 6)	**75,838**	75,838
Retained earnings (deficit)	**(13,229)**	2,593
	62,609	78,431
	$ 187,379	$ 166,205

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Director Director

Consolidated Statements of Operations and Retained Earnings (Deficit)

Years ended December 31 *(Expressed in thousands of dollars)*	**2002**	2001
Revenue	**$ 4,352**	$ 17,314
Expenses:		
Interest	**5,881**	4,995
General and administrative	**2,178**	1,914
Taxes	**1,491**	298
	9,550	7,207
	(5,198)	10,107
Loss from equity accounted investment	**8,278**	–
Earnings (loss)	**(13,376)**	10,107
Retained earnings (deficit), beginning of year	**2,593**	(4,161)
Preferred share dividends	**(2,346)**	(3,353)
Retained earnings (deficit), end of year	**$ (13,229)**	$ 2,593
Earnings (loss) per Class A and Class B common shares (note 9)	**$ (1.16)**	$ 0.08

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31 *(Expressed in thousands of dollars)*	**2002**	2001
Cash provided by (used in)		
Operations:		
Earnings (loss)	**$ (13,476)**	$ 10,107
Adjustments to reconcile earnings (loss) for the year		
to net cash flow provided by (used for) operations:		
Capital gains on sale of marketable securities and advances	**(348)**	(1,385)
Accrued interest on secured debt	**3,680**	4,995
Loss from equity accounted investment	**8,278**	–
	(1,866)	13,717
Net change in non-cash operating working capital	**1,804**	1,654
	(62)	15,371
Investments:		
Deposit held in trust	**–**	(7,000)
Repayments (advances) made on loans receivable	**1,357**	(107)
Corporate investment	**(98,675)**	(1,900)
Purchase of marketable securities and advances	**(25,281)**	(24,525)
Proceeds on sale of marketable securities and advances	**–**	64,197
	(122,599)	30,665
Financing:		
Draw (repayment) on advances	**107,293**	(28,473)
Preferred share dividends	**(2,346)**	(3,353)
	104,947	(31,826)
Increase in cash and cash equivalents	**(17,714)**	14,210
Cash and cash equivalents, beginning of year	**25,141**	10,931
Cash and cash equivalents, end of year	**$ 7,427**	$ 25,141
Supplementary information:		
Interest paid	**$ –**	$ –
Dividends received	**3,748**	2,501

See accompanying notes to consolidated financial statements.

Years ended December 31, 2002 and 2001
(In thousands of dollars, except for per share information)

1. BASIS OF PRESENTATION:

The Company is a merchant banking and investment corporation which provides transaction oriented bridge loans and management services to corporations encountering financial difficulties or requiring operational evaluations.

2. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Company are summarized below:

(a) Principles of consolidation:

The Company's consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated.

(b) Cash equivalents:

Cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a maturity of three months or less at acquisition, that are readily convertible to contracted amounts of cash.

(c) Marketable securities:

Marketable securities are carried at the lower of original cost and net realizable value.

(d) Corporate investments:

The Company accounts for investments in which it is able to exercise significant influence in accordance with the equity method. Under the equity method, the original cost of the shares is adjusted for the Company's share of post-acquisition earnings or losses, less dividends.

Investments in which the Company does not have the ability to exert significant influence are carried at cost, less a provision for any decline in value that is other than temporary.

(e) Revenues:

Revenues include dividends, interest, fees, and income or losses on merchant banking transactions that are substantially complete and collection is assured.

(f) Foreign currency:

Balances denominated in foreign currencies are translated into Canadian dollars as follows:

(i) Revenue and expenses at the average exchange rate during the period;

(ii) Monetary items at the rate of exchange prevailing at the balance sheet date; and

(iii) Non-monetary items translated at rates of exchange in effect when the assets were acquired or obligations incurred.

Exchange gains or losses arising on these translations are included in earnings.

Effective January 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants' new standards for the translation of foreign currencies. Under the new rules, gains and losses on long-term, monetary items denominated in currencies other than the Canadian dollar are no longer deferred and amortized over the life of the items but are charged directly to earnings as they occur. The change has been applied retroactively, although because the Company has no long-term, monetary items denominated in currencies other than the Canadian dollar, there was no impact of this change on the prior period financial statements.

(g) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in that period that includes the date of substantive enactment. To the extent that the realization of future income tax assets is not considered to be more likely than not, a valuation allowance is provided.

(h) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(i) Earnings (loss) per share:

Basic earnings (loss) per share is calculated by dividing earnings (loss) available to common shareholders by the weighted average number of common shares outstanding in the period. The earnings (loss) available to common shareholders is computed using the "two class" method of earnings allocation for participating shares. Diluted earnings (loss) per share is calculated by the treasury stock method.

3. CORPORATE INVESTMENT:

	2002	2001
Northgate Exploration Limited, accounted for using the equity method		
(Market value at December 31, 2002 – $124,640)	**$ 99,298**	$ 1,901

At December 31, 2001, the corporate investment represented a 34.7% interest in the issued and outstanding common shares of Northgate Exploration Limited.

On December 28, 2001, the Company subscribed for 5,555,556 special warrants of Northgate for $1.26 each. Each unit warrant was exercisable into a unit consisting of one common share and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to acquire a common share of Northgate at an exercise price of $3.00 per share until December 28, 2006. As the funds were held in escrow subject to the fulfillment of certain release conditions, the funds were recorded as deposit held in trust at December 31, 2001. During the year, the funds were released from trust and the Company received the common shares and common share purchase warrants.

On March 28, 2002, the Company subscribed for 6,884,839 units at $1.26 as part of a rights offering prospectus of Northgate. Each unit consists of one common share and one-half of one common share purchase warrant, each whole common share purchase warrant entitling the Company to purchase an additional common share at $3.00 per share to December 31, 2006.

Also during the year, the Company purchased a total of 3.6 million 8% convertible preferred shares of Northgate at a cost of $90,000,000. The Company received dividends on these preferred shares of $1,775,000 which have been recorded as revenue. On June 25, 2002, the Company converted the preferred shares into 59,602,650 common shares of Northgate at $1.51 per share.

At December 31, 2000, the Company's share of Northgate losses exceeded its investment, which was carried in the accounts at $1. Further, in 2001 the Company did not record its share of Northgate losses, as to do so would have resulted in a negative investment. As a result, approximately $8.4 million of losses have not been recorded in the accounts of the Company. The share of future profits earned by the Company from the investment in equity of Northgate will be reduced by previously unbooked losses.

At December 31, 2002, the corporate investment represents a 43.15% interest in the issued and outstanding common shares of Northgate Exploration Limited.

4. ADVANCES:

At December 31, 2002, the Company has advances payable of $33,841,000 (2001 – advances receivable of $73,452,000) due to a related party (note 8). The advances bear interest at LIBOR plus 1% and are due on demand.

5. SECURED DEBT:

The secured debt is due to a related party (note 8) and is secured by fixed and floating charges over all of the Company's assets. The average effective interest rate at December 31, 2002 was 4.2% (2001 - 5.8%).

6. SHARE CAPITAL:

(a) Authorized:

20,000,000 Class A Preferred shares

20,000,000 Class AA Preferred shares

20,000,000 Class AAA Preferred shares

200,000,000 Class A Subordinate Voting shares without par value

100,000,000 Class B Common shares without par value

(b) Issued and outstanding:

	2002	2001
2,981,876 Class AAA cumulative, participating Preferred shares, Series II, bearing a dividend of 75% of prime bank rate	**$ 74,538**	$ 74,538
11,726,118 (2001 – 11,683,963) Class A Subordinate Voting shares	**1,179**	1,179
1,895,712 (2001 – 1,895,712) Class B Common shares	**121**	121
	$ 75,838	$ 75,838

During 2001, the Company cancelled 46 Class A Subordinate Voting shares and 46 Class B Common shares which were being held in Trust.

During 2002, the Company settled debt of a predecessor company by issuing 42,155 Class A Subordinate Voting shares.

7. INCOME TAXES:

(a) Current income taxes:

Income tax expense differs from the amount which would result from applying the statutory Canadian income tax rate for the following reasons:

	2002	2001
Earnings (loss) before income taxes	**$ (13,476)**	$ 10,357
Tax based on statutory income tax rate	**$ (5,339)**	$ 4,509
Tax benefit related to equity accounted investment	**3,280**	–
Non-taxable dividends received	**(1,393)**	(1,676)
Non-deductible expenses	**591**	–
Loss carry forwards not recognized	**1,207**	(2,232)
Other	**1,654**	(351)
	$ –	$ 250

The company has approximately $7 million of non-capital losses for income tax purposes available at December 31, 2002 to reduce taxable income in future years. A valuation allowance of approximately $2.8 million has been applied to the future tax effect of the loss carry forward resulting in a net future tax asset balance of nil. The Company also has approximately $113 million of capital losses available to reduce taxes payable on future capital gains.

8. RELATED PARTY TRANSACTIONS:

In the ordinary course of business, the Company carries on certain transactions with its affiliates which are conducted on normal business terms. Marketable securities and advances receivable and advances payable comprise securities in and advances to/from affiliates. Loans receivable include $582,000 (2000 - $582,000) of loans to executives of the Company and nil (2001 - $723,000) to a related party. Interest expense on the secured debt due to Brascan Corporation, an affiliate, was $3,680,000 (2001 - $4,995,000) and other interest expense to related parties was $2,201,000. Revenue includes $4,078,000 (2001 - $11,736,000) received from affiliates.

During the year, the Company purchased from an affiliate for $25,000,000 50% of the common shares of a company which holds marketable securities.

9. NET INCOME PER CLASS A AND CLASS B COMMON SHARE:

Net earnings per Class A and Class B common share is calculated using the weighted average number of Class A and Class B common shares outstanding after the payment of a dividend of 75% of prime bank rate on the Class AAA Series II participating preferred shares.

The Class AAA Series II participating preferred shares are entitled to receive cumulative preferential cash dividends of 75% of prime bank rate and will participate with the Class A and Class B common shares in any common share dividend declared in any year after the Class A and Class B common shares receive dividends of $0.04 per share. Any additional dividends in the year will be paid on all of the participating preferred shares and Class A and Class B common shares with the dividends paid on the participating preferred shares Series II being fifty times the amount per Class A and Class B common shares.

	2002	2001
Earnings (loss)	**$ (13,476)**	$ 10,107
Preferred share dividends	**(2,346)**	(3,353)
	(15,822)	(6,754)
Earnings (loss) available to participating preferred shares	**–**	5,692
Earnings (loss) available to Class A and Class B common share	**$ (15,822)**	$ 1,062
Earnings (loss) per Class A and Class B common shares	**$ (1.16)**	$ 0.08
Weighted average participating shares outstanding,		
basic and diluted:		
Class A	**11,691,626**	11,683,986
Class B	**1,895,735**	1,895,735

10. SEGMENTED INFORMATION:

The Company considers itself to operate in a single segment being merchant banking and one geographical segment being North America.

11. FINANCIAL INSTRUMENTS:

The carrying value of marketable securities and advances approximates quoted market value at December 31, 2002 and 2001.

The carrying value of the loans receivable, accounts payable and accrued liabilities, advances payable and the secured debt approximate their fair value as interest earned or incurred thereon approximates market rates and/or because of the short maturity of the instruments.

12. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the financial statements presentation adopted for the current year.

Corporate Information

DIRECTORS

Howard J. Kellough, Q.C.	*Barrister and Solicitor* Fraser Milner Casgrain, LLP
Brian D. Lawson	*Executive Vice-President and Chief Financial Officer* Brascan Corporation
Frank N.C. Lochan	*Managing Partner* Brascan Financial Corporation
Brian G. Kenning	*Managing Partner and Chairman* B.C. Pacific Capital Corporation
Terrence A. Lyons	*Managing Partner and President* B.C. Pacific Capital Corporation
Bruce M. McKay	*Barrister and Solicitor* Fraser Milner Casgrain, LLP

OFFICERS

Brian G. Kenning	*Managing Partner and Chairman*
Terrence A. Lyons	*Managing Partner and President*
Bruce M. McKay	*Corporate Secretary*
Nicole Bourgouin	*Assistant Secretary*

CORPORATE INFORMATION

Auditors	*KPMG LLP, Vancouver, B.C.*
Stock Transfer Agent & Registrar	*Computershare Trust Corporation of Canada*
Legal Counsel	*Fraser Milner Casgrain, LLP, Vancouver, B.C.*
Stock Exchange	*Canadian Venture Exchange*

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